EXHIBIT 2

BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF NORTH DAKOTA

TESTIMONY OF THOMAS M. MEYER IN THE MATTER OF: FORM A STATEMENT OF MIDLAND NATIONAL LIFE INSURANCE COMPANY REGARDING THE ACQUISITION OF CONTROL OF CLARICA LIFE INSURANCE COMPANY-U.S.	Hearing Date: December 3, 2002 Time: 9:00 a.m. CST Location: Capitol Building 12th Floor, Public Service Commission Conference Rm Bismarck, North Dakota

TESTIMONY OF THOMAS M. MEYER

A. INTRODUCTION/DESCRIPTION OF WITNESS

1. Q: **Please state your name for the record.**

   A: My name is Thomas M. Meyer.

2. Q: **Please describe your professional qualifications and your position with the Midland National Life Insurance Company. (For ease of reference, Midland National Life Insurance Company will be referred to as "Midland," Sammons Financial Group, Inc. as "SFG," Sammons Enterprises, Inc. as "SEI," Clarica Life Insurance Company, the Canadian life insurance company, as "Clarica Canada,", Clarica Life Insurance Company-U.S. as "Clarica," and Clarica U.S. Inc., the U.S holding company parent of Clarica, as "Clarica-U.S.")**

   A: I am currently the Senior Vice President and Chief Financial Officer for Midland. I am also Senior Vice President, Chief Financial Officer and Treasurer of SFG, which is the parent of Midland.

3. Q: **Mr. Meyer, could you please provide us with a brief summary of your employment history for the ten years prior to beginning employment with Midland?**

   A: I joined Midland in 1995 as the Controller. Before joining Midland, I spent four years, from June, 1991 through May, 1995 as the Assistant Vice President – Controller and Assistant Vice President – Finance for Equitable Life of Iowa.

EXHIBIT
2

Prior to this I was an audit manager with Ernst & Young, specializing in Insurance audit.

4. **Q: Who are Midland's senior management?**

A: Besides myself, there are Mike Masterson, Chairman and Chief Executive Officer, John Craig, President and Chief Operating Officer, Donald Iverson, Senior Vice President and Corporate Actuary, Steve Palmitier, Senior Vice President – Sales, and Steve Horvat, Senior Vice President—Legal.

5. **Q: What is your opinion of their experience and qualifications?**

A: I have spent the past seven years working with them as part of Midland. Midland is consistently profitable, stable, conservative and well run, due to management's successful supervision of Midland's business and operations. Each member of Midland's executive staff is experienced, capable, well-qualified and honest.

B. <u>INTRODUCTION OF MIDLAND</u>

1. **Q: Mr. Meyer, what type of company is Midland?**

A: Midland is an Iowa stock life insurance company. It is privately held and wholly-owned by SFG.

2. **Q: What is the history of Midland?**

A: Midland was organized in South Dakota in 1906 as Dakota Mutual Life Insurance Company. Midland became a stock insurance company in 1909. Midland's ultimate corporate parent is SEI, a Delaware corporation that was organized in 1962.

3. **Q: Mr. Meyer, could you please describe Midland's business operations?**

A: Midland is a leading national financial services organization providing a wide range of life insurance and annuity products to individual clients. It is licensed in 49 states, the District of Columbia, Puerto Rico, Guam, the U.S. Virgin Islands, and is authorized to sell life insurance and annuities at several U.S. military installations overseas. Midland has an extensive distribution network of over 10,000 licensed sales professionals consisting of independent personal producing general agents.

4. **Q: Is Midland the only insurance company in the Sammons Financial Group family of companies?**

A: No, it has two sister insurance companies: North American Company for Life and Health Insurance, an Illinois domiciled life insurer ("North American") and North American Company for Life and Health Insurance of New York, a New York domiciled life insurer ("North American New York"). Both issue annuities, as well as whole life, universal life and term life insurance. All three insurers are wholly-owned by SFG and Midland North America and North American New York are each licensed in North Dakota.

5. **Q: Could you please describe the size and financial strength of Midland?**

A: As of September 30, 2002, Midland had statutory capitalization and surplus of approximately $485 million and over $7.7 billion in total assets.

6. **Q: What is the total insurance business of Midland together with the other SFG insurance companies?**

A: Midland has over 700,000 policyholders; all three SFG-owned insurance companies combined have a total of approximately 1,200,000 policyholders. Midland has in force $72 billion of life insurance coverage; all three SFG-owned insurance companies combined have in force about $200 billion of life insurance coverage.

7. **Q: What is the current RBC ratio for Midland as of September 30, 2002?**

A: It is approximately 500% of Authorized Control Level Risk-Based Capital.

8. **Q: How does Midland fit within the organizational structure of SEI?**

A: As noted above, Midland is wholly-owned by SFG, a Delaware corporation, which also owns North American and North American New York. SFG in turn is indirectly wholly-owned by SEI. As John Craig pointed out, the outstanding capital stock of SEI is about 90% owned by the Charles A. Sammons Charitable Remainder Trust Number TWO, about 5% owned by the SEI Employee Stock Ownership Trust at Wells Fargo Bank, and about 5% owned by Mrs. Elaine Sammons, the widow of Charles A. Sammons.

9. **Q: Tell us about SEI.**

A: The core business of SEI, and its subsidiary SFG, consists of the underwriting and distribution of individual life insurance and annuities. SEI's subsidiaries also own and operate businesses in the fields of resort hotels (Grove Park Inn Resort), beverage water production and distribution (Mountain Valley Water), distribution of industrial equipment (Briggs Equipment), real estate investments (various entities) and miscellaneous other services and enterprises. SEI has total assets approaching $14 billion and annual revenues approaching $2 billion. As noted above, the Charles A. Sammons Charitable Remainder Trust Number TWO owns most of the stock of SEI.

C. <u>DESCRIPTION OF THE PROPOSED TRANSACTION</u>

1. **Q: Are you familiar with the contents of the Form A application seeking the approval the acquisition of Clarica by Midland?**

A: Yes, I am.

2. **Q: Can you please explain to us how the transaction is structured for Midland to acquire Clarica?**

A: The Proposed Transaction is structured as a stock purchase whereby Midland will purchase all of the outstanding stock of Clarica-U.S., the holding company for Clarica, in exchange for $286 million in cash (the "Proposed Transaction"). The purchase price is adjusted downward for holding company debt on the books at or incurred after June 30, 2002, and adjusted upward if cash is received by Clarica from sales of certain non-acquired assets, namely Ash Brokerage and its affiliates and a series of mortgage loans referred to as the Presidio Mortgage Loan (the "Excluded Assets"). If the cash from the sale or spin off of these assets from Clarica remains with Clarica at the time of closing, then the purchase price will be increased by the amount of that cash. After the Proposed Transaction is completed, Clarica-U.S. will be a wholly-owned subsidiary of Midland, and Clarica will be indirectly wholly-owned by Midland.

3. Q: **What motivated Midland to enter into this transaction?**

A: We have continually been looking at acquiring a midsize company with a focus on individual life and annuity products. We have been patient in waiting for the right opportunity and along with our parent SEI we have available capital for a transaction this size.

4. Q: **How do SEI and Midland plan to finance the transaction?**

A: SEI and Midland will finance the acquisition of Clarica-U.S. entirely with their own available funds. We do not expect any debt to be incurred in connection with the transaction. We also plan to enter into a reinsurance agreement with an unaffiliated reinsurer for 30% of the insurance business of Clarica that is being acquired.

5. Q: **Can you please explain in greater detail how the financing for the transaction will be structured?**

A: As currently structured, the payment of the purchase price will be made through a capital contribution to Midland of $250,000,000 from its parent SEI, through SFG. As mentioned before, this amount will be contributed from SEI's currently available funds without the necessity of borrowing. The remainder of the purchase price will be paid from Midland's working capital.

6. Q: **How will Midland's acquisition of Clarica affect Clarica's financial condition and strength?**

A: First, given that SEI and Midland are acquiring Clarica for almost $300 million, we expect it to get our full attention. This transaction will be one of significant importance and size to Midland and it will be treated accordingly. Second, we expect to enter into a Tangible Net Worth Agreement with Clarica which will immediately give it the financial strength of the combined companies. The ultimate merger, being only about a year away, will solidify that combined strength. Third, no debt will be associated with the acquisition, so there will be no pressure to service debt. Fourth, as mentioned in the Form A and above, substantial inflows of cash to Clarica will occur as a result of the reinsurance transaction, while at the same time a sizable portion of Clarica's life insurance risk will be reinsured.

7. **Q: What will be the financial effects for Midland following the merger?**

A: Because the bulk of the purchase price for the purchase of Clarica-U.S. is funded by SEI cash on hand, we expect no material financial impact on Midland. As noted above, we expect Clarica itself to be stronger financially as a result, both immediately after the closing and upon merger with Midland one year later.

8. **Q: What will be the financial strength of the combined operations of Midland and Clarica?**

A: As of September 30, 2002, the net capital and surplus on a pro forma basis for the combined operation would be approximately $610 million. The RBC ratio for the combined companies based on their September 30, 2002 financial statements would be approximately 480% of Authorized Control Level Risk-Based Capital. For Clarica, this would be marked improvement. This is without calculation of the beneficial impact on Clarica's RBC ratio from the reinsurance arrangement planned for 30% of Clarica's business.

9. **Q: What impact will the Proposed Transaction have on the ratings of Clarica?**

A: Although we can't speak for the rating agencies, we expect Clarica's A.M. Best rating to remain the same and Standard & Poor's has placed its rating of Clarica on Credit Watch Positive after the announcement of Midland's proposed acquisition of Clarica. In addition, immediately after the closing of this transaction, Midland plans to put in place a Tangible Net Worth Maintenance Agreement acceptable to rating agencies which will enhance Clarica's financial strength. We can also expect the cost-savings that normally go with a strategic acquisition like this one where you have two similar organizations engaged in similar lines of business joining together. The accompanying economies of scale and benefits of combining talent and expertise can be expected to increase the financial strength and efficiency of both organizations.

10. **Q: Would you explain the reinsurance transaction?**

A: Yes. At the closing of the Proposed Transaction, Clarica will cede to an unaffiliated reinsurer on a coinsurance basis approximately 30% of its life insurance business. Clarica will receive a ceding fee, exclusive of tax effects, of approximately $26 million. This cash will stay with Clarica. That additional cash combined with the transfer of the risks associated with the reinsurance obligations to be undertaken by the reinsurer will give a significant boost to Clarica's RBC ratio and financial health.

11. **Q: In the documents filed in connection with the acquisition, there are references to cost savings. What are those savings and are they cumulative?**

A: Our initial appraisal reflects current expense levels equal to allowances plus some extra or unabsorbed expenses in the early post-acquisition years. Midland's purchase price anticipates that these unabsorbed expenses would be eliminated either through increased production or expense savings as a result of the merger and any integration. The unabsorbed expenses in the appraisal are $9 million for the first year, which is what we would expect to eventually save on a comparable annual basis. I believe that getting back to pricing allowances will not be inordinately difficult to achieve and will not impair or threaten any services.

12. Q: **What will happen to Clarica employees as a result of the Proposed Transaction?**

A: We have not had adequate time or opportunity to determine the extent and effect of what specific changes to employment levels or positions will occur. Our management and operational teams along with Clarica management are studying the business plans, operations, products – all aspects of Clarica's business to understand as fully as we can how Clarica is operated and how we can best manage Clarica in the best interests of its policyholders and customers. We have only been involved in this process for about 30 days. It is an ongoing process and we will have a better understanding after the closing and after having actually operated Clarica and worked with its management and personnel. To achieve cost savings and avoid duplication of positions, there will undoubtedly be some consolidation and elimination of positions.

I personally have been involved in the transition of Clarica's Brookfield office and the financial functions which we need to integrate from there by March of 2003. These employees had already received their severance notices shortly after the Sun Life transaction that occurred in May 2002.

13. Q: **What provision will there be for displaced employees of Clarica?**

A: There are severance plans and packages in place that will be retained. There are also some retention and integration bonuses already in effect. The amount of retention bonuses put in place by Sun Life total approximately $350,000. There are also transition bonuses of about $450,000. These were agreed to by Sun Life and will obviously be honored by Clarica and Midland. There are severance amounts which are expected to be paid in the amount of approximately $800,000 related to employees previously identified to be separated from Clarica's Brookfield operations.

14. Q: **Are there any tax consequences to the policyholders based on the transaction?**

A: None of which we are aware.

15. Q: **I understand that Clarica is going to spin off certain "Excluded Assets." Please describe what these are, how much they are worth and how these transactions impact Clarica and Midland.**

A: The Excluded Assets consist of the stock of Ash Brokerage Corporation, an Indiana insurance agency, AFH Financial Consortium, Inc., an Indiana domestic broker-dealer, Hamilton Marketing Group, a Michigan insurance agency, and

Management Consolidated Corporation, a Florida insurance agency. Clarica directly or indirectly owns 85% of the stock of these companies except for Hamilton which Clarica indirectly owns 72% of. Midland is not purchasing these companies or their stock. If the stock of these companies is sold and converted to cash which remains with Clarica at closing, Midland will have to increase the purchase price to cover the amount of this cash remaining with Clarica. We have heard from Sun Life that they expect to sell Clarica's interest in these companies for about $27 million. Clarica also must sell or transfer prior to closing, the Presidio Mortgage Loan. Clarica expects to receive about $2 million for this Excluded Asset. Again, any cash Clarica retains at closing from disposition of the Presidio Mortgage Loan results in an increase of the purchase price Midland pays Clarica Canada at Closing. In addition, certain tax benefits attributable to the sale of the Excluded Assets are passed through to Clarica Canada at the time of filing for the tax year in which the loss was incurred.

16. Q: **If Midland is required to pay an additional $30 million of purchase price to cover the proceeds from the sale of the Excluded Assets, where will these additional funds come from?**

A: Midland's cash on hand will be used to pay additional amounts resulting from purchase price adjustments. Midland will not need to seek regulatory approval to use this cash, since it is being used to purchase a permitted investment, i.e., Clarica-U.S. and Clarica, which will be wholly-owned by Midland. Any increase in purchase price effectively becomes a "cash for cash" increase – we will only pay if the Acquired Company has more cash. Additionally, Clarica has requested the right to dividend the proceeds from the sale of the Excluded Assets to Clarica US to be used to cash collateralize and eventually pay the Clarica–U.S. Eurobond indebtedness.

17. Q: **How will the debt of Clarica-U.S. be handled by Midland?**

A: Clarica-U.S. owes $18 million to Clarica Canada which will be paid by Midland at closing. Under the terms of the Stock Purchase Agreement, Midland's payment of this debt will reduce the purchase price dollar for dollar. Clarica-U.S. also has issued Euro bonds (pounds sterling) that have a balance owed of about USD $30 million. The obligation to pay these bonds will be the responsibility of Clarica Canada at closing. The payment will be cash collateralized with proceeds from the sale of Excluded Assets if the Commissioner approves Clarica's pending request of a dividend in the amount of the proceeds from the sale of the Excluded Assets. A related $28 million surplus note from Clarica to Clarica-U.S. will be converted after closing to a straight capital contribution.

18. Q: **How will the acquisition affect Clarica's ability to pay policyholder claims?**

A: The Proposed Transaction will not alter the terms and conditions of the policies of any of Clarica's policyholders, including, but not limited to, the premiums, policy benefits, annuity payments or any right to receive or have credited to their accounts, dividends or other payments provided under such policies. Since Clarica will retain the ceding fee and also have the benefit of the reinsurance of a substantial portion of its insurance risk, and the intended benefits of a Tangible

Net Worth Maintenance Agreement with Midland, we expect the financial strength of Clarica to improve as a result of the change in control.

19. Q: **Will any officer, director or any principal of Midland receive any compensation or special bonus as a result of the successful completion of the transaction?**

A: No.

20. Q: **What will be Midland and Clarica's combined market share following the acquisition?**

A: The 2001 ACLI Life Insurance Fact Book shows that for the year 2000, Clarica, Midland and the other SEI insurance subsidiaries, if combined, would have 4.11% of life insurance, 2.01% of annuity insurance, .07% of health and 1.30% of the total amount of life, annuity and health insurance written in North Dakota. In the U.S., the combined market share for 2000 is .82%, 1.36%, .01% and .35% respectively. You also have to remember that Midland is purchasing Clarica from Sun Life, Canada's largest insurer with substantial U.S. insurance businesses. As a result of the purchase, Midland, a smaller company, will actually be acquiring a portion of insurance business from a much larger company. Any comparison of the concentration of insurance business in the State of North Dakota should take this into account.

21. Q: **How will Clarica's investment portfolio be managed after the closing?**

A: As mentioned in our Form A, Guggenheim Group, LLC, in which SEI holds a minority interest and appoints one of thirteen directors, will be appointed to manage Clarica's investment portfolio after the Closing. The form of Investment Portfolio Management Agreement is being negotiated and will be furnished to the Commissioner's Office. Midland and the other SFG insurers currently use Guggenheim.

D. <u>BENEFITS OF THE TRANSACTION</u>

1. Q: **Mr. Meyer, do you believe that the transaction will benefit Clarica?**

A: Yes, I do.

2. Q: **What, in your opinion, are the most important benefits that this transaction will bring to the policyholders of Clarica?**

A: Upon consummation of the ultimate merger, the policyholders will benefit from the financial strength of the combined entities, from the management and resources of the combined entities, from the additional products and services Midland and the other SFG companies can offer; and from the focused attention Midland will give to Clarica's customers as a result of this important and significant investment of Midland's and SEI's resources.

3. Q: **Do you see any changes in the way policyholders will be serviced as a result of the transaction?**

A: No. We intend to provide the same level of quality and service to the policyholders of Clarica that our management team has provided to Midland's policyholders.

E. **OTHER ISSUES**

1. Q: **What are the current ratings and ratios for Midland and Clarica?**

A: Midland and Clarica are both rated A+ (superior) by A.M. Best. Midland is rated AA by S&P; Clarica is rated A+ by S&P. Clarica's RBC ratio, as discussed in Section 3.1(i) of the Disclosure Schedule to the Stock Purchase Agreement, shows decreases in its RBC ratio from December 31, 2001 of 235% of Company Action Level Risk-Based Capital to a projected 185% on December 31, 2002. These percentages are a percentage of Company Action Level Risk-Based Capital; the RBC Ratio as a percentage of Authorized Control Level Risk-Based Capital was 470% on December 31, 2001 and is expected to be around 370% on December 31, 2002.

2. Q: **Will any Clarica dividends be initiated before the closing?**

A: It is our understanding that Clarica has requested a dividend of the proceeds received from the sale of Ash and Presidio. The sale of these assets and the dividend will not impact capacity and surplus by the full amount of the dividend, as a good portion of these assets are currently non-admitted. The net impact of these transactions is that the Excluded Assets are effectively dividended out of Clarica.

F. **STATUTORY STANDARDS**

1. Q: **Concerning the statutory standards set forth in the North Dakota Century Code relating to the acquisition of control of a North Dakota insurer, is there any reason to believe that after the transaction Clarica would not be able to satisfy the requirements for the issuance of a certificate of authority to write the lines of insurance for which it is presently licensed to write?**

A: No. Clarica will satisfy the licensing standards of North Dakota and the other states in which it transacts business on an ongoing basis following the completion of the transaction. It is adequately capitalized and operating properly. Its licensed status and qualifications will not change because of the transaction. As I previously mentioned, Clarica will have adequate capital at closing which will be supplemented by the ceding fee from the proposed reinsurance arrangement.

2. Q: **Do you believe that the effect of the acquisition of control would be substantially to lessen competition in insurance in North Dakota or tend to create a monopoly therein?**

A: No. The transaction is not expected to substantially lessen competition in insurance in the State of North Dakota or tend to create a monopoly here. As John Craig and I noted, the North Dakota combined market share data for the Midland and other SFG insurers and Clarica doing business here is relatively small -- below 5% of the market. You also have a large insurer selling a portion of its insurance business to a smaller insurer, which will tend to promote competition.

3. **Q: In your opinion, is the financial condition of Midland such as might jeopardize the financial stability of Clarica, or prejudice the interest of its policyholders?**

A: No. As John Craig and I testified, Clarica's financial condition will be stronger as a result of this proposed transaction. Midland will be receiving a $250 million capital contribution for this transaction which will increase its capital. Midland's acquisition of and eventual merger with Clarica will not jeopardize the financial strength of Clarica or prejudice the interests of its policyholders.

4. **Q: Does Midland have any current plans or proposals to liquidate Clarica, to sell its assets or consolidate or merge it with any person, or to make any other material change in its businesses or corporate structure or management that are unfair or unreasonable to the policyholders of Clarica?**

A: Midland has no plans that are unfair or unreasonable to the policy holders. As previously stated Midland's present plan is to merge Clarica into Midland in about one year. Our efforts after the acquisition will be towards better understanding Clarica's businesses, operations and the roles its personnel and systems play, with the view to integrating the businesses of the two companies. The changes in its business or corporate structure or management will not be unfair or unreasonable to the policyholders of Clarica nor would they be against the public interest. Midland intends to appoint new individuals to be directors of Clarica and, after we perform a thorough review of operations, undoubtedly there will be other personnel changes both at Clarica and Midland. We will have to decide what specific strategies, methods and personnel will be used in order to integrate the two organizations and their businesses in a cost-effective manner. There will be some changes in that respect, but again with a view to retaining and properly servicing Clarica's business and customers.

5. **Q: Do you believe that the competence, experience and integrity of those persons who would control the operations of Clarica are such that it would not be in the interest of policyholders of Clarica and the public to permit the proposed acquisition of control of Clarica by Midland?**

A: I have a high degree of confidence in the competence, experience and integrity of Midland's management. John Craig, myself and the rest of the executive team are experienced in the insurance and financial services industries. Midland's long history of successful, steady and competent operations indicate that Clarica's customers and the public will be well-served by Midland's operation and control of Clarica.

6. **Q: Do you believe the acquisition is likely to be hazardous or prejudicial to the insurance buying public?**

A: No. As my and John Craig's testimony indicates, Midland is well-capitalized, well-run and experienced. The Proposed Transaction will not be hazardous or prejudicial to the insurance buying public.

G. CONCLUSION

1. **Q: Do you have anything further to add?**

A: We would like to thank the Commissioner and his staff at the North Dakota Department of Insurance for their careful review of this filing. We look forward to working with them in the future.

Thomas M Meyer

Thomas M. Meyer